

**Account**

The method used to accumulate related accounting information (e.g. Salaries and Wages Expense – Library Personnel is an account used to collect the payroll costs of library personnel).

**Account Groups**

Account groups are used by governmental libraries to establish control over and accountability for a governmental library's general fixed assets and the unmatured principal of its general long-term debt. There are two account groups: the general fixed assets account group and the general long-term debt account group. Account groups are different from funds in that they are not used to account for revenue, expenditures or fund balances. With the implementation of GASB Statement number 34, account groups will not be reported in governmental financial statements, however, they may continue to serve as an effective manner of recordkeeping for information that will be required in the "Government wide" financial statements, that will be reported on the full accrual basis of accounting.

**Accounting**

Accounting is the process of identifying, recording, classifying and reporting information on economic events in a logical manner for the purpose of providing financial information for decision making.

**Accounts Payable and Accrued Liabilities**

A short-term liability account reflecting amounts due to individuals or organizations for goods and services purchased by a library.

**Accounts Receivable**

An asset account reflecting amounts due from individuals or organizations for goods and services furnished by a library.

**Accrual Basis**

A method of accounting whereby revenue is recorded when earned (regardless of when received) and expenses are recorded when incurred.

**American Institute of Certified Public Accountants (AICPA)**

The not-for-profit national association whose purpose is to promote the interests of CPAs by setting auditing standards and providing training and other services to members.

**Amount to be Provided**

An "asset" account in the General Long-term Debt Account Group, used by governmental libraries, representing the amount to be provided from future revenue to retire outstanding general long-term liabilities.

**Annual Report**

A financial report prepared annually that includes a library's financial statements.

**Asset**

Something of value owned by a library. A library's total assets equal its liabilities plus fund balance.

**Audit**

Auditing is a set of procedures performed to enable an auditor to express an opinion as to whether the financial statements present the financial information fairly, in all material respects, in conformity with generally accepted accounting principles as established by the American Institute of Certified Public Accountants (AICPA).

**Audit Trail**

Ability to follow through the accounting system a complete set of accounting records supporting a transaction.

**Auditor's Report**

A statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on 1) the fairness of presentation of the financial statements and/or 2) the library's compliance with laws and regulations.

**Balance Sheet**

The financial statement disclosing the assets, liabilities, and fund balance of a library at a specified date in conformity with generally accepted accounting principles.

**Banker's Acceptance**

Time draft drawn on and accepted by a bank, the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a Money Market instrument.

**Basis of Accounting**

A term used to refer to when revenue and expenditures – and the related assets and liabilities – are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement. See Accrual Basis and Cash Basis.

**Bond**

A written promise to pay a specified sum of money (called the face value or principal amount), at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality.

**Bonds Payable**

The face value of bonds issued and unpaid.

**Books of Original Entry**

The record in which various transactions are initially recorded (e.g. cash receipts journal, cash disbursements, or general journal). With automated bookkeeping methods, one transaction may be recorded simultaneously in several records, one of which may be regarded as the book of original entry.

**Budget**

A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. In the State of Michigan, all General, Special Revenue and Debt Service Funds are required by law to be budgeted annually.

**Capital Expenditures**

Expenditures resulting in the purchase of or addition to a governmental library's general fixed assets.

**Capitalization Policy**

The criteria (i.e., dollar cut-off) used by a library to determine which purchases should be reported as fixed assets.

**Capital Projects Fund**

A fund used to account for development of capital facilities, such as an addition to a building.

**Cash Basis**

A basis of accounting under which transactions are recognized only when cash is received or disbursed.

**Cashier**

An individual responsible for collecting cash usually at the circulation desk of a library.

**Certificate of Deposit**

A debt instrument issued by a bank that usually pays interest. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

**Certified Public Accountant (CPA)**

An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

**Check**

A written order to a bank to pay on demand a specified sum of money to a named payee out of money on deposit to the credit of the maker.

**Commercial Paper**

Short-term obligations with maturities ranging from 2 to 270 days is issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

**Compliance Audit**

An audit for compliance with applicable laws and regulations.

**Component Unit**

A component unit is a legally separate organization for which the elected officials of a primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Confirmation**

Process by which the auditor submits requests to banks and other entities to verify cash, investment and debt balances reflected on a government unit's financial records.

**Contingent Liability**

Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgements under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed within the financial statement notes when there is a reasonable possibility a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

**Cost**

The amount of money or other consideration exchanged for goods or services.

**Current Financial Resources**

Current financial resources is a modified accrual concept, wherein the government fund reporting focuses primarily on the sources, uses, and balances of current financial resources of individual funds and has a budgetary orientation. "Financial resources" refers to assets that are spendable, i.e. cash or claims to cash; "current" refers to resources that will be converted to cash within a short period (30 to 60 days), or claims against our resources (i.e., liabilities) that are normally liquidated within a short time period.

**Debt**

An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of libraries include bonds and notes.

**Debt Proceeds**

The amount of money received upon issuing debt. Debt proceeds will typically differ from the debt principal amount due to bank fees, etc.

**Debt Service Fund**

A fund used for annual payment of principal, interest and expenses in connections with certain long-term debt.

**Deferred Revenue**

Revenue or support received or recorded before it is earned (i.e., before the conditions are met in whole or in part) for which the revenue or support is received or is to be received. Under the modified accrual basis of accounting, amounts that are measurable but not available are one example of deferred revenue.

**Deficit**

(1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenue during an accounting period.

**Disbursements**

Payments in cash or by check.

**Double Entry**

A system of bookkeeping requiring that for every entry made to the debit side of an account or accounts, an entry or entries be made for an equal amount to the credit side of another account or accounts.

**Due from Other Funds**

An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered.

**Due to Other Funds**

A liability account reflecting amounts owed by a particular fund to another fund for goods sold or services rendered.

**Encumbrances**

Commitments related to unperformed contracts for goods or services (e.g. purchase orders, executed contracts, etc.). Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result when unperformed contracts in process are completed or purchase orders are filled.

**Endowment**

Monies or property that are donated with either a temporary or permanent restriction as to the use of principal.

**Endowment Fund/Permanent Endowment**

A fund used by a library in which a donor has directed in the donation instrument that the principal is to be maintained and only the income from the investment of the fund may be expended.

**Entry**

The record of a financial transaction in the accounting books.

**Expenditures**

A modified-accrual term used by governmental libraries to describe reductions in net financial resources. Expenditures include current operating expenses requiring the use of net current assets, debt service, and capital outlays.

**Expenses**

An accrual basis term used at the government wide level to describe the consumption of goods or services. This would include depreciation.

**Extraordinary item**

Extraordinary items are transactions or other events that are both “unusual in nature” and “infrequent in occurrence”.

**Fidelity Bond**

A written promise to indemnify against losses from theft, defalcation and misappropriation of public monies by the library board, officers, or employees.

**Financial Statement Audit**

Financial statement audits provide reasonable assurance about whether financial statements present fairly the financial position and results of operations in conformity with generally accepted accounting principles.

**Financial Statements**

Those financial statements, including footnotes, necessary for the fair presentation of the financial position and results of operations of a library. The minimum required financial statements to be in conformity with GAAP include a balance sheet and a statement of revenue and expenditures. A budget comparison statement is also required for governmental libraries.

**Fiscal Period**

A twelve-month period for which the annual operating budget relates and at the end of which a library determines its financial position and the results of its operations.

**Fixed Assets**

Long-lived assets obtained or controlled as a result of past transactions, events, or circumstances. Fixed assets include buildings, furniture, equipment, improvements, and land. These assets are also referred to as property, plant and equipment.

**Fund**

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

**Fund Balance**

The difference between assets and liabilities of a library's fund.

**Fund Type/Fund Group**

Any one of several categories into which all funds are classified. The fund types/groups are: general, special revenue, debt service, capital projects, and trust for governmental libraries.

**General Fixed Assets Account Group**

A self-balancing group of accounts established to account for general fixed assets by a governmental library.

**General Fund**

The fund used by governmental libraries to account for most financial resources, except those required to be accounted for in another fund.

**General Journal**

A journal in which are recorded all entries not recorded in special journals. See Journal.

**General Ledger**

A record containing the accounts needed to reflect the financial position and the results of operations of a library. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances).

**General Long-term Debt Account Group**

A self-balancing group of accounts established to account for the unmatured general long-term debt of a governmental library. The General Long-term Debt Account Group is also used to report that portion of the liabilities for claims, judgments, compensated absences and unfunded pension contributions of governmental libraries not expected to be paid within one year.

**Generally Accepted Accounting Principles (GAAP)**

Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to not-for-profit libraries is the FASB and to governmental libraries is the GASB.

**Generally Accepted Auditing Standards (GAAS)**

Standards established by the American Institute of Certified Public Accountants (AICPA) for the conduct and reporting of financial audits. There are 10 basic GAAS, classed into three broad categories: general standards, standards of field work, and standards of reporting. The Auditing Standards Board of the AICPA publishes Statements on Auditing Standards (SAS) to comment and expand upon these basic standards. These SAS, together with the 10 basic standards, constitute GAAS. These GAAS set forth the objectives of the audit and establish measures that can be applied to judge the quality of its performance.

**Government Audit Standards (GAS)**

Standards established by the U.S. General Accounting Office (GAO) in its publication *Government Auditing Standards* ("Yellow Book") for the conduct and reporting of financial and compliance audits. GAS set forth general standards applicable to audits and separate standards of field work and reporting for audits. The GAS standards of field work and reporting for financial audits incorporate and build upon GAS.

**Governmental Accounting Standards Board (GASB)**

The authoritative accounting and financial reporting standard-setting body for governmental libraries.

**Governmental Accounting Standards Board Statement**

A statement issued by the GASB specifying the accounting principles and practices to be used by governmental libraries to account for a particular financial transaction.

**Government Wide Financial Statements**

Government-wide financial statements are the second component of the new reporting model after MD&A. Government-wide financial statements are prepared using the total economic resources measurement focus and the full accrual basis of accounting. As a result, they report all of the assets, liabilities, revenues, expenses, and gains and losses of the entire governmental unit.

**Grants**

Contributions or gifts of cash or other assets from a government or not-for-profit entity to be used or expended for a specified purpose, activity, or facility.



**Historical Cost**

See Cost.

**Independent Audit**

An audit performed by an independent auditor.

**Independent Auditor**

An auditor meeting the independence criteria set forth in GAAS or GAS. In order to maintain independence, an auditor cannot be an employee of the library or a member of the library's board or management.

**Internal Controls**

Policies and procedures established to provide reasonable assurance that specific internal control objectives will be achieved.

**Investment Grade**

Bond with a rating of AAA to BBB.

**Investment Pool**

A combination of resources for a common purpose or benefit. For example, a bank pools the funds of its customers, giving them an opportunity to share in a portfolio offering greater diversification and the hope of a better return on their money than they could get individually.

**Investments**

Most commonly, securities held to generate interest and dividend revenue.

**Journal**

A book of original entry used to record cash receipts, cash disbursements, and non-cash transactions (e.g. record of journal entries).

**Ledger**

A group of accounts in which are recorded the financial transactions of an entity. See General Ledger and Subsidiary Ledger.

**Liabilities**

Amounts owed to others.

**Long-term Debt**

Any debt which matures in more than one year from the date of issuance.

**Major Funds**

Major funds is a new concept created by GASB Statement number 34 in order to focus the financial reporting on funds that represent a significant portion of a government's activities. The determination of what constitutes a major fund is based on a mathematical formula. The General Fund of a government is always reported as a major fund. Additionally, governments may choose to report as major funds that do not meet the mathematical criteria if they believe that they are important to financial statement users.

**Major Program**

Major programs are federal programs selected for testing by an auditor using a risk based approach prescribed by OMB Circular A-133. They are generally the largest and/or riskiest federal programs of the entity.

**Management's Discussion and Analysis (MD&A)**

MD&A is a required part of the supplemental information that introduces the basic financial statements and provides an analytical overview of the financial activities.

**Measurement Focus and Basis of Accounting**

The term "measurement focus" is used to differentiate 'what' accountants attempt to measure and report in a fund's operating statement. "Basis of accounting" refers to the 'when' items are measured.

**Modified Accrual Basis**

The accrual basis of accounting adapted to the governmental fund-type measurement focus. Revenue is recorded when collected or collectible soon enough to be used to pay current liabilities (referred to as "available"). "Available" generally means collectible within 30 to 60 days. Special rules apply, as well. Expenditures are recorded when incurred (i.e., when the goods are received or the services rendered), not when cash is paid or when an invoice is received. Special rules apply, as well.

**Mutual Fund**

Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management. For these services, they charge a management fee, typically 1% or less of assets per year.

**Notes Payable**

In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time either to the bearer or to the order of a person designated therein.

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**Notes to the Financial Statements**

The narrative disclosures required for a fair presentation of the financial statements of a library in conformity with GAAP and not included on the face of the financial statements themselves.

**Operating Transfers**

Board authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

**Other Financing Sources**

Governmental library general long-term debt proceeds, proceeds from the sale of general fixed assets, and operating transfers in. Such amounts are classified separately from revenue on the governmental library operating statement.

**Other Financing Uses**

Governmental library operating transfers out. Such amounts are classified separately from expenditures on the governmental library operating statement.

**Permanent Fund**

Permanent Funds are a new fund type created by GASB Statement number 34 that are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs

**Petty Cash**

A sum of money set aside on an imprest basis to make change or to pay small obligations for which the issuance of a formal check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash funds. However, they are not "funds" in the sense of not-for-profit or governmental accounting individual funds. Petty cash accounts should be reported as assets of the fund of ownership.

**Petty Cash Voucher**

A form used to record individual disbursements of petty cash. The petty cash voucher accounts for any petty cash monies disbursed and explains the purpose of the disbursement along with providing the payee and amount.

**Pledge**

A promise to make a contribution to a library in an amount and form stipulated.

**Posting**

The process of transferring to an account in the general ledger the summarized data contained in a book of original entry.

**Prepaid Expense**

An asset account representing payment in advance of the receipt of goods and services (e.g. prepaid rent and unexpired insurance premiums).

**Principal**

In the context of debt, the face amount borrowed and payable on stated dates of maturity.

**Purchase Order**

A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

**Receipts**

Cash or checks received.

**Register**

A record for the consecutive entry of a certain class of transactions, with proper notation of all the required details (i.e., a cash disbursement journal is also sometimes called a check register).

**Registered Security**

A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

**Repurchase Agreement**

Agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

**Required Supplementary Information (RSI)**

RSI provides additional information that is necessary for users of financial reports to evaluate certain financial aspects of a governmental unit's operation. With the adoption of GASB Statement number 34, RSI includes the MD&A and budgetary comparison information.

**Revenue**

Increases in the assets of a library other than through the issuance of debt or incurrence of a liability.

**Salaries and Wages Payable**

A liability account reflecting salaries and wages earned by employees but not due until a later date.

**Securities**

A negotiable or nonnegotiable instrument that signifies an ownership interest, or right to an ownership interest or creditor status.

**Schedule of Expenditures of Federal Awards**

Schedule included in a Single Audit report that lists federal program information, including program name, federal identification information, expenditures, and award amounts.

**Short-Term Debt**

Debt with a maturity of one year or less after the date of issuance.

**Single Audit**

An audit of an organizations federal programs as required by the Single Audit Act Amendments of 1996 (P.L. 104-156) performed in accordance with OMB Circular A-133. A single audit is required when annual federal expenditures exceed \$300,000.

**Special Items**

Special items are significant transactions or other events within the control of management that are either “unusual in nature” or “infrequent in occurrence”.

**Special Revenue Fund**

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

**Statement of Activities**

The Statement of Activities is designed to report the results of the government’s operations (changes in net assets) of the primary government and of discretely presented component units. The Statement of Activities is presented using the full accrual basis of accounting.

**Statement of Changes in Fund Balance**

The financial statement that reconciles the fund balances of an entity at the beginning and end of an accounting period in conformity with GAAP. It explains the relation between the operating statement and the balance sheet.

**Statement of Net Assets**

The Statement of Net Assets is designed to display the financial position of the primary government and its discretely presented component units. The Statement of Net Assets reports the components and balances of the government’s net economic resources at year end that can be used to provide future services. The Statement of Net Assets is presented using the full accrual basis of accounting.

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**Statement of Revenues and Expenditures**

The financial statement that is the governmental library's GAAP operating statement. It presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in an entity's net current assets. Statements of changes in fund balance should be combined with operating statements into "all-inclusive" operating statement formats.

**Subsidiary Account**

One of a group of related accounts supporting in detail the debit and credit summaries recorded in a control account (e.g. the individual vendors' accounts for the accounts payable control account in the general ledger).

**Subsidiary Ledger**

A group of subsidiary accounts, the sum of the balances of which should equal the balance of the related control account (e.g. a ledger which lists the individual vendors' accounts for a library). See General Ledger and Subsidiary Account.

**Total Economic Resources**

Total economic resources is a full accrual concept where a government reports its financial condition and results of operations on a full accrual basis of accounting. The concept applies to the government wide financial statements and includes all assets and liabilities, both current and non-current.

**Trial Balance**

A list of the balance of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or if their net balance agrees with a control account, the ledger from which the figures are taken is said to be in balance.

**Trustee**

A fiduciary holding property on behalf of another.

**Voucher**

A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.